



If you're like the typical small business owner, when you read the latest story of business fraud or embezzlement, you don't even think to ask the question: "Could this happen to me?" If you do think to ask the question, you probably quickly answer, "Of course not. I know my employees. I can trust them. They've been with me for many years."

Maybe it's time to think again. Consider:

- For 2006, the most recent year reported, more than 3,900 cases of embezzlement were reported... and many embezzlement cases are never reported.
- Every year, business fraud or embezzlement costs small businesses between \$20 billion and \$40 billion according to the Chamber of Commerce.
- The typical embezzler is the person you'd least suspect: middle-aged and a long-term employee who has gained the trust and respect of a company's owners and managers.
- Fraud is detected many times only once it threatens to bankrupt a business... and by then it's usually too late.

At The Bank of Northern Michigan, we've grown by helping our clients' businesses become successful. We help small businesses use the latest technology to support their business while safeguarding their accounts. We meet with business owners one-on-one to better understand their financial needs. One of the first steps we review with clients in preventing fraud and abuse is to examine current procedures and identify where checks and balances may be weak. Especially with new clients, we ask questions such as: "Who opens the mail? Who prepares the bank deposits? Who reconciles the bank statements and how often? Does the same person who writes checks also get the mail?"



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Our Relationship Managers at The Bank of Northern Michigan will make suggestions tailored to your specific situations but can be summarized as these simple steps:

- 1. Lock up your checkbook:** Businesses often store hundreds of blank checks in an unsecured cabinet. Locking up the checkbook will avoid this potential theft. And never sign blank checks.
- 2. Diversify the workload:** Delegating the same person to open the mail, record receivables and handle deposits can be very tempting. By diversifying the workload, would-be embezzlers know they are unable to write themselves checks or create fictional vendors because another employee will be double-checking the bookkeeping. Dual controls over financial processes are critically important.
- 3. Consider third-party reconciliation:** Many embezzlement cases involve an employee writing checks for personal expenses or to him- or herself and destroying the returned cancelled checks because few business owners have time to do monthly reconciliations. Also, if a company has a large cash flow, it's easier to cover up an embezzlement scam. Hiring an outside accounting firm could be an option for reconciling bank statements.
- 4. Walk the line on lines of credit:** Business owners should limit who is authorized to request advances on their line of credit and limit access. Again, if the same person who writes checks has authorization to request cash advances, the business owner has unwittingly made it easier for an unscrupulous employee to steal.
- 5. Keep your ACH transactions in order:** Automatic clearinghouse payments can expedite receipts/payments by providing electronic access to/from company accounts. But if the account numbers fall into the wrong hands, a bank account can be in jeopardy. Business owners should review electronic transactions on a daily basis.
- 6. Take out insurance:** Service companies, retail businesses, accounting firms and schools commonly purchase a fidelity bond, sometimes called "honesty insurance." The coverage is limited and ranges from \$5,000 to \$100,000. A company must usually disclose any prior losses from employee theft, and a claim requires conviction in court of the bonded person.
- 7. Don't become complacent:** Business owners are always shocked to learn that a long-term, trusted employee who has no apparent reason to steal has committed internal fraud. We advise our clients to schedule frequent financial reviews because personal circumstances can change and temptation can be hard to resist, particularly if an employee is facing a financial crisis or has developed expensive tastes or hobbies.

**One final thought:** Don't put your trusted employees/volunteers in a position where they may be tempted. It's in their best interest and yours.

Contact one of our Relationship Managers today to find out how The Bank of Northern Michigan can help you and your business build for continued success. We understand that business isn't "just business"... it's personal. That's why we take the time to build a personal relationship with our clients, to truly understand their needs for today and aspirations for the future.

You owe it to yourself to discover what it is like to work with a bank that is a true partner and adviser to its clients. Call us today for your free consultation and to learn more about how to prevent fraud from damaging your business.

We're just a phone call away, and we can't wait to meet you.



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## BUSINESS FRAUD PREVENTION CHECKLIST

### All Accounts

- Frequent reconciliation of accounts.
- Perform daily review of all transactions.
- Set maximum limits on checking accounts.
- Keep an independent record of received checks to ensure they are all posted and deposited.
- Reconcile cash sales, receipts and deposits.
- Use an outside accounting firm to reconcile statements.
- Use internet banking as an easy way to review accounts.
- Only use credit cards (not your debit card) for online purchases.

### Workload Diversification

- Separate responsibility for reconciling payables, receivables and statements.
- Have different people open the mail, record receivables and handle deposits.
- Limit employee access to your online account statements.
- Require mandatory vacations of all employees.
- Institute dual controls for key positions.

### Credit Lines

- Limit who is authorized to request advances.
- Limit access to credit lines.
- Authorize different people to write checks and request cash advances.

### ACH Transactions

- Employ ACH blocks and filters to help prevent electronic transaction fraud.

### Payables

- Use Positive Pay services for payables.
- Cancel invoices and vouchers to make sure they are not paid twice.

### Checks

- Never sign blank checks.
- Keep all blank checks locked away and audit them monthly.
- Place stop payments on all missing checks.
- Destroy unused checks from dormant accounts.
- Reduce use of paper checks by making and accepting electronic payments.
- Know and understand the security features of your check vendor.
- Use electronic banking to pay bills online.
- Limit use of vendor automatic debits on your accounts.



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